BC STATS
Province of British Columbia
Ministry of Finance and Corporate Relations

Infoline

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March 27, 1997

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http://www.bcstats.gov.bc.ca

Report **Incorporations Signal Slumping Confidence**

BC at a glance . . .

POPULATION (thousands)	Jan 1/97	% change on year ago
BC	3,902.5	2.2
Canada	30,135.9	1.1
GROSS DOMESTIC PRODUCT		% change
(BC - at market prices - $ millions)	1995	on year ago
Current Dollars	103,273	4.6
Constant (1986) Dollars	74,107	1.9
TRADE ($ millions)		
Manufacturing Shipments (seas. adj.) Jan	2,839	3.8
Merchandise Exports (raw) Jan	2,091	10.5
Retail Sales (seasonally adjusted) Jan	2,815	9.7
CONSUMER PRICE INDEX		% change
(all items - 1986=100)	Feb '97	on year ago
BC	139.4	0.9
Canada	137.3	2.2
LABOUR FORCE (thousands)		% change
(seasonally adjusted)	Feb '97	on year ago
Labour Force - BC	2,000	2.7
Employed - BC	1,828	2.6
Unemployed - BC	173	3.7
		Feb '96
Unemployment Rate - BC *(percent)*	8.6	8.5
Unemployment Rate - Canada *(percent)*	9.7	9.6
INTEREST RATES (percent)	Mar 19/97	Mar 20/96
Prime Business Rate	4.75	7.00
Conventional Mortgages - 1 year	5.05	7.00
- 5 year	7.00	8.50
US/CANADA EXCHANGE RATE	Mar 19/97	Mar 20/96
(avg. noon spot rate) Cdn $	1.3696	1.3597
US $ *(reciprocal of above rate)*	0.7301	0.7355
AVERAGE WEEKLY EARNINGS		% change
(industrial aggregate - dollars)	Jan '97	on year ago
BC	616.83	3.9
Canada	594.44	4.0

SOURCES:
Gross Domestic Product: Statistics Canada, revised by BC STATS
Population, Trade, Prices, Labour Force, Earnings: Statistics Canada
Interest Rates, Exchange Rates: Bank of Canada Weekly Review

Revised Population Figures

This issue includes January 1, 1997 population figures released by Statistics Canada on March 27th. With this release, in an unusual move, the previous quarter has been revised. Whereas we reported, for October 1 for BC and Canada respectively, 3,888.5 and 30,101.6 (thousands), the revised October figures are 3,880.0 and 30,051.6.

Note

The interest rates and exchange rates shown on this page have not been updated, as the source document, *Weekly Financial Statistics*, will not be published until Monday March 31 due to the Friday holiday.

Released this week by BC STATS

- Earnings and Employment Trends, December 1996
- Business Indicators, March 1997
- Current Statistics, March 1997

Next week

- Migration Highlights, Fourth Quarter 1996
- Exports (BC Origin), January 1997
- Labour Force Statistics, March 1997
- Tourism Room Revenue, November 1996

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Infoline Report:

March 27, 1997

Changes In Business Confidence Expressed In Numbers of New Incorporations

Reprinted from the Third Quarter 1996 issue of *Small Business Quarterly*. An annual subscription is $30 + GST.

Incorporating a business implies confidence, so the rate at which new corporations are being created is tied to the business outlook and the state of the economy. The link is particularly significant for small and medium businesses, which account for the great majority of incorporated businesses.

Whether large or small, businesses incorporating in British Columbia can do so under any one of several incorporating jurisdictions. Their likely first option is to use the provincial British Columbia Company Act. However, depending on their business needs or legal advice, they could choose instead to incorporate federally under the Canada Business Corporation Act or under the equivalent corporate law of another province or country.

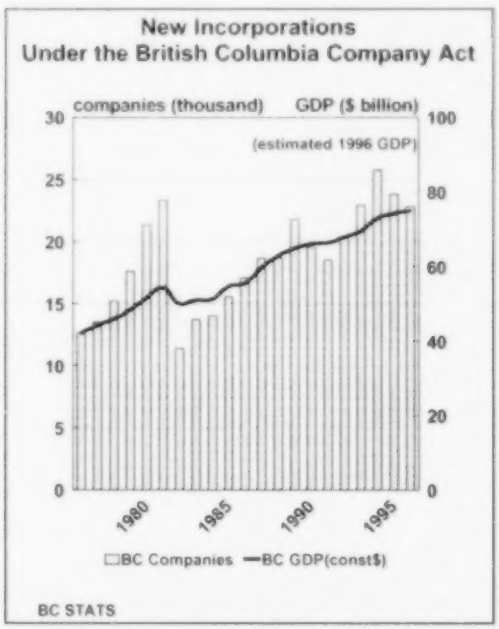
If they are incorporated in a legal jurisdiction outside British Columbia, they can continue to operate in the province simply by registering with the British Columbia Corporate Registry as an extraprovincial corporation.

The vast majority choose to incorporate under the British Columbia Company Act. There were some 248 thousand of these British Columbia Corporations at the end of 1996, far more than the 4,858 federally incorporated companies based in British Columbia, or the estimated 1,200 companies incorporated in other provinces but registered as active extraprovincial corporations in British Columbia. There were only an estimated 290 companies incorporated in other countries, registered as extraprovincial companies in British Columbia.

There are considerably fewer numbers of active incorporated businesses than these numbers suggest. Many corporations are no more than holding companies, established only to tie together other companies in a corporate tree. Others are merely shelf companies, empty legal shells stored away until needed.

When Economic Growth Falters, New Incorporations Drop Off Sharply

People are understandably more inclined to create new business corporations when they feel confident about business prospects. Business prospects are largely determined by economic growth, so that historically there is a strong association between the rate at which new incorporations are created and the change in provincial gross domestic product.



But usually when a change in gross domestic product from one year to the next leads to a change in the numbers of new incorporations being processed, it produces a magnified response. The pattern suggests the dynamics of some confidence-related stock market 'corrections' or real estate market 'adjustments'.

The most remarkable of these magnified responses came in the recession of 1982. After decades of consistent and sometimes rapid economic growth, the economy shrank 8% between 1981 and 1982. It remains on record as the only time the province has posted a year over year decline (after inflation) in gross domestic product in the entire 35 year period for which gross domestic product numbers have been compiled.

The shock to business confidence was particularly sharp for small business, producing a 51% drop in the numbers of new incorporations being issued under the British Columbia Company Act from 23,368 in 1981 to 11,432 in 1982.

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In more recent economic history, slowdowns in economic growth have produced similar, although less dramatic, effects on the rate at which new incorporations are formed.

The largely eastern Canadian recession of the early 1990's was felt as little more than an economic slowdown in British Columbia. Nevertheless, it shook business confidence enough to cause a 10% drop in new British Columbia incorporations from 21,817 in 1989, to 19,550 in 1990. They then fell another 5% in 1991 to 18,528.

Business confidence began to recover again in 1992 and new British Columbia incorporations shot back up 10% to 20,406. They continued climbing through 1994 to reach a peak of 25,774 in that year.

In 1995, they began to tumble again as economic growth slowed. They dropped 8% to 23,846 between 1994 and 1995, and then slipped another 4% to 22,848 in 1996.

The down cycle in business confidence is confirmed by other indicators. For example, private sector capital spending fell 5% from 1994 to 1995, and then another 5% from 1995 to 1996. Anticipated production and new manufacturing orders also fell off in both years.

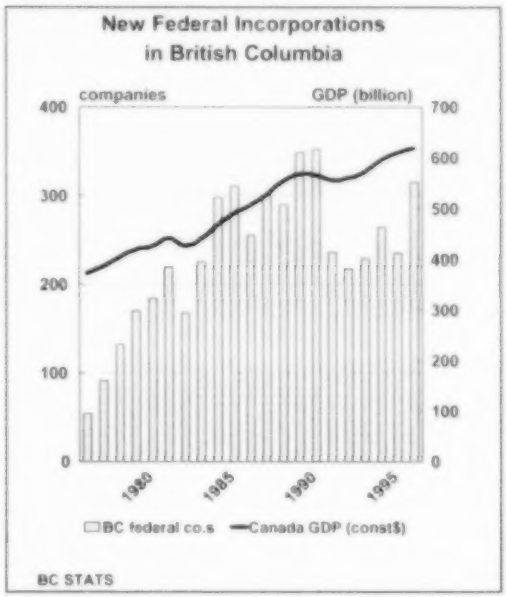
Federal Incorporations Suggest A Wider Business Focus

The rate of new federal incorporations in British Columbia have moved in a somewhat different pattern, one better explained by economic trends affecting the economies of Canada as a whole.

The reason for the difference lies in the types of companies that are likely to prefer federal incorporation to provincial. In general, federally incorporated companies are more apt to operate beyond provincial borders.

With business operations further afield, federally incorporated companies are more sensitive to trends affecting the total Canadian economy (as indicated by changes in the *Canada* gross domestic product) than are provincially incorporated companies.

During the recession of the early 1980's, the numbers of new federally incorporated companies being created in British Columbia were far less strongly affected than were the numbers of new provincially incorporated companies.



The difference reflects the relative severity of that recession in British Columbia and in Central Canada. In British Columbia the 1982 recession hit hard and was followed by slow growth for some years after. In much of the rest of Canada it was sharp but short, with relatively few lingering effects.

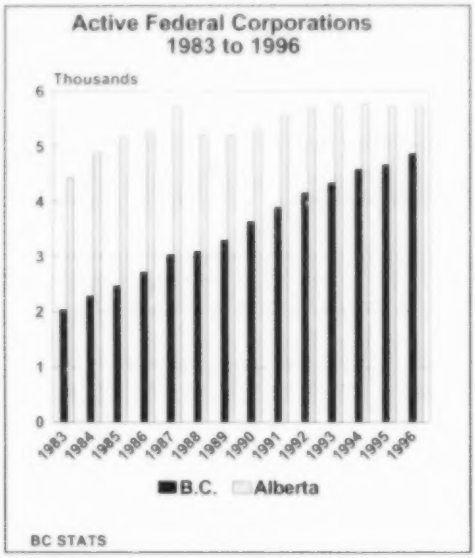
Following the pattern of the Canada gross domestic product, the numbers of federally incorporated companies being chartered in British Columbia dropped off in 1982, but then recovered almost immediately in 1983. They continued to grow well past the 1981 level in the years after.

Later, during the recession of the early 1990's, the patterns were reversed. This was largely an eastern Canada recession that registered as not much more than a moderate economic slowdown in British Columbia. This time it was the federally incorporated companies in British Columbia and elsewhere that were being incorporated at much reduced rates for years after, while the rates at which new provincially incorporated companies were being created dropped less and recovered more quickly.

Fewer Federal Corporations In British Columbia Than In Alberta, But Gap Closing

British Columbia has traditionally been the base for fewer federally incorporated companies than Alberta. This might seem strange because British Columbia has a larger population and an economy of about the same size, with more individual businesses and more self-employed people. The gap has been closing steadily in the 1980's and 1990's, but there are still more federal corporations in Alberta.

The main reason for British Columbia to have



fewer federally incorporated companies is that it is relatively isolated from other parts of Canada.

Separated by a mountain range from the only neighbouring province, and with that provincial border located along a relatively sparsely populated side of the province, British Columbia has produced fewer businesses that can easily extend their operations into other parts of Canada.

Alberta, by contrast, occupies a relatively central location in western Canada with road and rail routes to eastern British Columbia, Saskatchewan and Manitoba that are shorter, straighter and more easily traversed.

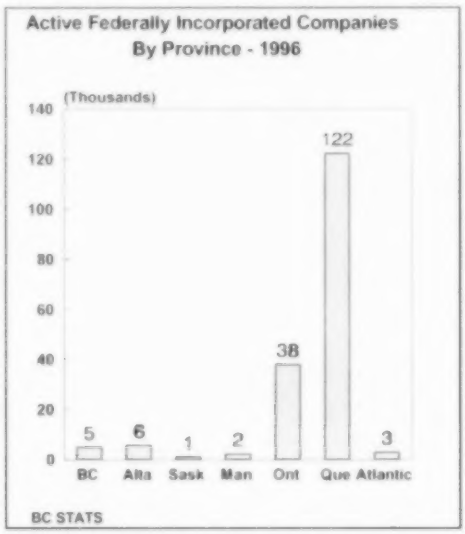
But although British Columbia still has proportionately fewer federally incorporated companies operating in the province, the number is increasing faster than in any other province. There were 4,858 active British Columbia based federally incorporated firms at the end of 1996, up 12% from 4,327 at the end of 1993. This compared with the drop of 1% for Alberta over this period, and a very modest rise of 2% for Ontario.

The catch up reflects the emergence of Vancouver as a major business centre in Canada, and as the country's main centre for conducting business with the fast growing markets of the Pacific Rim.

Most Federally Incorporated Companies Based In Quebec

By a peculiar feature of its corporate law, Quebec has tempted a larger number of its businesses to incorporate federally than any other province.

Quebec is the only province that does not have



legislation permitting corporate charters to be transferred to or from other provinces. This has provided companies in Quebec with a special incentive to incorporate federally as a means of keeping options open, should they ever wish to leave the province.

It has also produced the curious incongruity of the province with a separatist government being the home to 69% of the federally incorporated companies in Canada.

Even with increases in federal incorporating fees, Quebec companies continue to choose federal incorporation in much larger numbers than those in other provinces. In 1996, 59% of all new federal incorporations issued were for Quebec based firms.